

protection) established by St. Simon and Fourier in France, or those of the Economites in Pennsylvania, the Zoarites in Ohio, the Shakers, or the well-known experiment at Brook Farm in Massachusetts some years ago. In many of them the property is held in common by all the members, although some retain private property. While every member of the community is provided for by a minimum allowance, as in Fourierism, the produce is generally distributed in some way so that the more capable get more than the less capable. The great **difficulty with these schemes** has generally been in adapting each person's work to his capacity, and assigning a remuneration justly corresponding to his merits. There can be no objection whatever to permitting the trial of these experiments, because people go into them of their own free will. It is far otherwise with State socialism, where there would always be a large class of persons who would be forced into the experiment against their will.

CHAPTER XXVI.

TAXATION.

274. WHEN men form a State, they hand over to certain selected persons the duty of protecting life and property, and caring for the best interests of the citizens. In the United States we put this national power into the hands of Congress, the President, and the Courts. Whether it is intended that they should interfere much or little with the industries of our citizens, it is necessary, in either case, that the State should be provided with a **revenue** from which the expenses of carrying on the Government can be defrayed. For the years 1886, 1895, 1899, and 1900, the United States had the following expenses to meet :

[In millions and tenths of millions.]

Expenditures of United States.	1886.	1895.	1899.	1900.
Civil Expenses (including foreign intercourse, public buildings, District of Columbia, etc.)...	\$74.2	\$101.9	\$119.2	\$105.7
Indians	6.1	10.3	12.8	10.2
Pensions	63.4	141.2	139.4	140.9
War Department	34.3	54.6	229.8	134.8
Navy Department	13.9	31.7	63.9	55.9
Interest on the Public Debt	50.6	27.8	39.9	40.2
For Sinking Fund	44.5			
Total	\$287.0	\$367.5	\$605.0	\$487.7

It is manifest, therefore, that a State has many expenses to meet, and that taxes should exist in order to raise the money necessary to cover these expenses.

Besides paying taxes to the United States, the people are also obliged to pay something to the State, to the county, and to the city or town in which they live. Thus a resident of New York city helps to pay taxes, among other things, for the maintenance of Congress, the President, and the United States courts; he also pays taxes to allow New York State to conduct its own affairs with a governor, a legislature, and State courts; taxes to provide for county expenses; and finally he pays taxes to maintain a city government, comprising a mayor and aldermen, with expenses for water-works, street-cleaning, fire-engines, etc. In all these cases, of course, a revenue is necessary; and this revenue is obtained by taking some part of the wealth of each person for the use of the Government. **The whole object of taxation, therefore, is to provide the means for defraying the proper expenses of the Government,** whether it be the national, state, county, or town government.

275. In taking a part of each man's property, the State deals with delicate matters, and should be obliged to consider its action carefully. When persons work and toil for the wealth they own, they will not consent to part with it except for good reasons; and they may justly demand that Governments should follow certain well-accepted rules which experience and justice have found to be necessary. (1) Each man should be taxed **in proportion* to his ability to pay**, and the tax ought not to change the relative standing of men in the community. This is what is meant by saying that the **tax should be equal**; for, of course, the State should act impartially with all of its citizens. Then (2) the amount to be paid in **taxes ought to be certain** and definite, and ought not to be changed arbitrarily; for if producers know be-

* I shall not, of course, discuss in an elementary treatise the various theories by which equality is best realized, nor the principles according to which equality is tested.

forehand just how much the tax will be they can arrange their business accordingly. Even a very high tax can be paid, provided it is certain and not fluctuating. (3) The State will also do well to **collect the tax when it is most convenient for the tax-payer**. When a person is about to buy an article of luxury, he can be best taxed in the form of an increased price; for, if he does not want to pay the tax, he need not buy the luxury. And (4), finally, the Government ought not to levy a tax, which is intended to pay the expenses of Government, in such a way that any considerable part of that which is taken from the tax-payer does not go to the State. Apart from the smallest necessary expenses for collecting the tax, the **whole amount should go to the Government**, and not to persons who have no right, such as the state has, to take property from citizens.

276. Most writers on taxation distinguish between direct and indirect taxes. **Direct taxes** are those which are levied on the very persons who it is intended or desired should pay them, and which they can not put off upon others by raising the prices of the taxed article. The best example of a direct tax is one on a man's income; others are poll-taxes, licenses, taxes on horses and carriages, on books and furniture, on dogs, and on houses (if levied on the occupier). Some one, for example, is obliged to pay a dog-tax; he can not arrange it so that another person shall pay it. He may escape it only by giving up the dog; but, if he keeps the dog, he can not throw the tax on any one else. **Indirect taxes**, on the other hand, are those which are levied on persons who expect to get back the amount of the tax by raising the price of the taxed article. A good example of an indirect tax is one on the importation or manufacture of commodities. When an importer pays \$1 for a yard of silk in France and brings it to the United States, where he is obliged to pay a tax of 60 cents on importing it, he adds

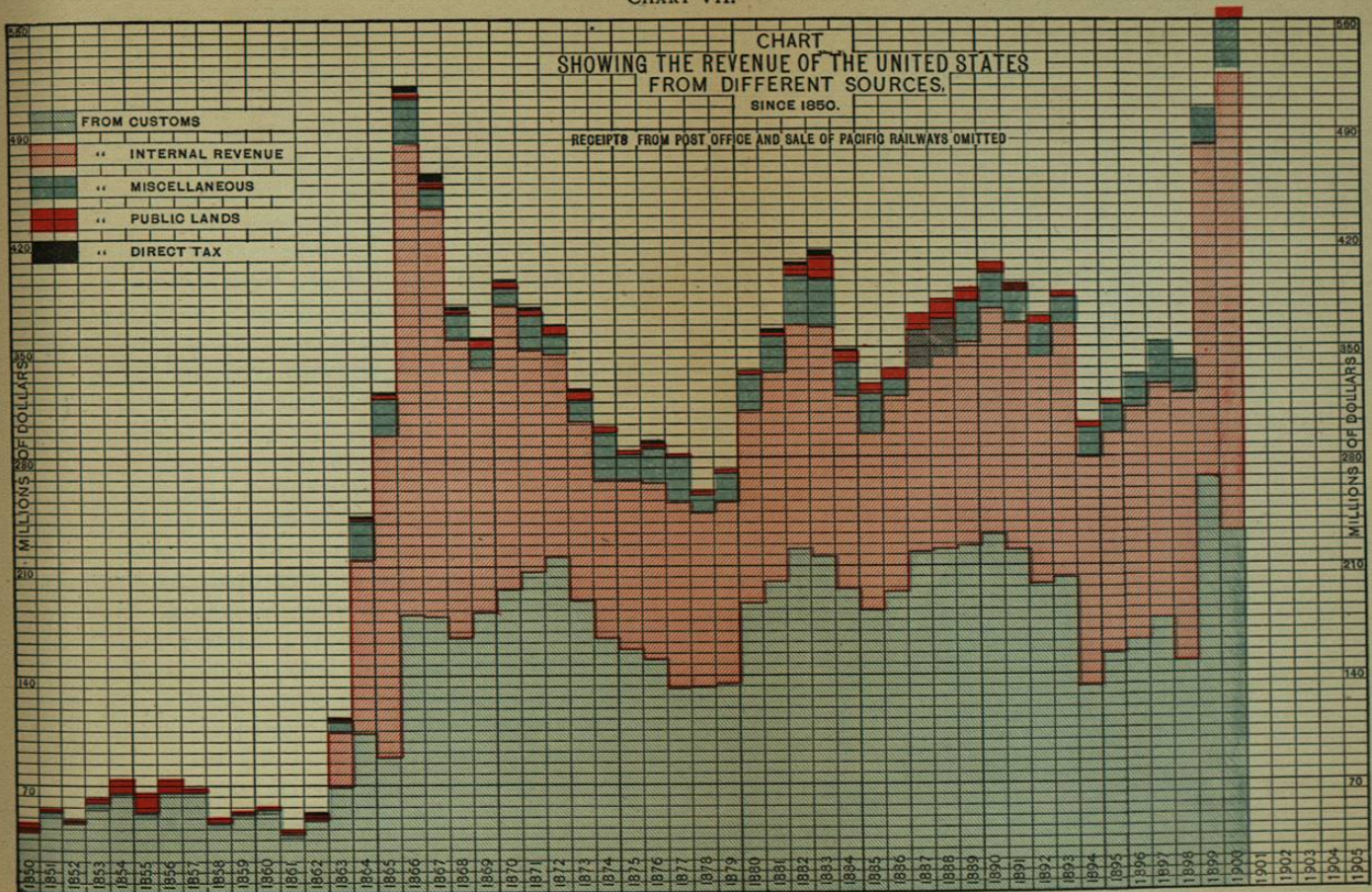
the tax to the purchase-price, and charges his customers as much as \$1.60 a yard, if not more; in this way he throws the tax on the consumer. Other instances of indirect taxes in the United States are internal-revenue duties on the manufacture of tobacco and spirituous liquors. The price of these articles is raised, if the producers pay a tax on them; and so the consumers really pay the tax to the Government in the higher price they pay to the producers of the articles.

277. During our civil war (1861-1865) a very great change was made in our taxes, as can be seen by reference to Chart VII, which shows the fluctuations in the sources of national revenue. During that time the Government was very anxious to raise money to pay the war expenses, and so resorted to every possible means of taxation. As one of the forms of direct taxes, they tried the **income-tax**; and, although it has been given up by the national Government, this tax is still used in some States. It is a kind of tax which in theory is excellent, but in practice is unjust. In favor of it, it is to be said that, if we are to tax men in proportion to their ability to pay, a man's income indicates very fairly this ability. Incomes, however, below a certain amount should remain altogether untaxed. This exemption is \$2,000 in Massachusetts, and only incomes above that sum are taxed. So that an income of \$2,500 is taxed on only \$500. Again, saving from an income ought not to be discouraged, and, if it could be justly arranged, a man ought to be exempt from taxation on all that part of his income which he has saved. With all these exceptions, the income-tax would be as good as any tax which could be imposed. But, on the other hand, there is an overwhelming objection to it. In practice, no reasonable means exist of finding out what a man's income is; only the conscientious and honest will report their income exactly, while, in order to escape paying taxes, the dishonest will conceal their income. Thus

CHART VII.

CHART
SHOWING THE REVENUE OF THE UNITED STATES
FROM DIFFERENT SOURCES,
SINCE 1850.

RECEIPTS FROM POST OFFICE AND SALE OF PACIFIC RAILWAYS OMITTED



the tax falls only on the conscientious, while the unconscientious escape. This makes it an unequal tax, falling on some and not on others; and for that reason it is a very objectionable one. **In practice the income-tax is not fair.** It has also been questioned whether Congress has a constitutional right to impose an income-tax for national purposes.

278. In this country the national revenue is practically all raised by indirect taxation on commodities; so that it is scarcely known that taxes are being paid. It remains true, all the same, that we pay taxes in the increased prices of the goods we buy. But the taxation which, in practice, most people regard as onerous, is that levied for **state, county, and municipal purposes.** This is chiefly in the form of direct taxes on real estate, on personal property, carriages and horses, or income. Here there is no little difficulty. Apart from the amount collected, which is very high, owing to municipal extravagance, it is found that persons having personal property escape, while those having real estate do not. Personal property is in the form of bonds, stocks, mortgages, or notes. Here, as in the case of the income-tax, the **tax on personal property** is unjust, simply because it falls unequally; the honest and conscientious make a full return of their personal property, and are taxed accordingly, while those who conceal this kind of property escape altogether. Consequently it is sometimes proposed to abolish the tax on personal property on the ground of its unfairness. This tax, however, is likely to remain, because the amounts received from it are large, although it falls unevenly, and the towns can not well get on without it.*

* A perfectly fair tax, and one which would yield considerable revenue, is that on bequests. The heir in receiving a bequest receives that which was the result of another's exertion, and the State is warranted in taking a sum out of this by taxation. The heir then comes

279. When we come to consider indirect taxes, or those imposed on commodities, so that the person who pays the tax can raise the price of the commodities, and thus force the purchaser to pay him back the tax, there are some general remarks to be made as to the kind of articles which it is best to tax. (1) In the first place, **taxes should never be levied on the necessities of life**, or on the materials or instruments employed in producing these necessities. The reason of this is very plain; for the poor ought not to be taxed on the necessities of life when there are so many other things used by the well-to-do which can be taxed. Necessaries of life should be excluded for the same reason that an exemption should be made of small incomes under an income-tax. On the other hand (2), **articles which have most connection with vanity**, such as expensive jewelry, diamonds and lace, or horses and carriages,* ought to be taxed as much as is expedient. If people are obliged to give up such articles by reason of the tax, there is no harm done. (3) A tax on a commodity should be levied **on the consumer and not on the producer** of it; because, if levied on the producer, he will raise the price, not merely by the amount of the tax, but by much more than the tax. He will want interest on the additional capital required for paying the tax, because there will be more for him to risk. The person who buys the articles will thus be paying a tax to the State, and also a tax to the producer, which violates that one of the canons of tax-

to regard the bequest in the beginning as less by the amount of the tax, and there is not the same feeling as when taxes are taken out of one's acquired property in which an unquestioned right of property exists.

* Some regard should be paid for cases where a horse is used as a means of income, and not for luxury or pleasure. A drayman's horse ought not to be taxed the same as a horse used by some one for pleasure purposes.

tion (section 275) which requires that the tax should be levied solely for the State. (4) Among luxuries, articles used as **stimulants** may be properly selected for taxation. For, if any article of luxury is to be chosen, a tax on that which causes evil and misery is better than that on another which does not entail similar consequences. (5) But care should be taken that the tax is not so high as to cause evasion; for in that case the revenue will be less than if the tax were lower and if it were generally paid. There is a rate of duty for a commodity which is known as "**the revenue point**," at which the State can get the largest revenue. If the tax is lowered just to the point where it permits the largest possible amount of the commodity to be consumed, the large amount of the article on which the tax is paid will produce a larger revenue than if the tax were higher and paid on a less amount. Just where this point is, the financier can find out only by careful trial.

280. In taxing a commodity in order to obtain the largest revenue with the least burden on the people, the tax should not be imposed on only one of two methods of obtaining it. If this is done, it constitutes a **discriminating tax**. When left to themselves, men will naturally adopt that one of two methods which produces the best article at the lowest price. If the United States were to tax cane-sugar and not beet-sugar, and if cane-sugar alone had been produced before, this would create a necessity for employing what producers, by their former action, admitted to be the inferior method of getting sugar—that is, from beets. This action would render the sugar either poorer in quality or more expensive; and the additional labor and capital required would be wasted "as uselessly as if it were spent in hiring men to dig holes and fill them up again." The sugar-makers would raise their price enough to cover this waste to them, and the people who buy sugar would really pay for the waste.

This violates the rule that taxes should take as little as possible from the tax-payer beyond the amount covered into the treasury of the State; and, in proportion as sugar should be no longer produced from the cane, the State would lose its revenue, for the tax was to be levied only on the cane-sugar.

281. As the United States provides its revenue almost entirely by means of indirect taxes, people seldom realize that they are paying taxes to the United States out of the price of a blanket or of a pound of sugar. The state, county, and municipal taxes, on the other hand, are generally direct, and these are the taxes which people feel the most; for the money, after all, which a man pays out directly as taxes is generally the only money which he believes he is paying as taxes. With indirect taxation it is different. We can see from the following **Treasury statement of the income of the United States**, for the years 1886, 1895, 1899, and 1900, how large a sum is collected from taxes on commodities:

Receipts of United States.	1886.	1895.	1899.	1900.
Customs.....	\$192.9	\$131.8	\$273.4	\$233.2
Internal Revenue.....	116.8	147.1	206.1	295.3
Sales of Public Lands.....	5.6	1.7	1.7	2.8
Taxes on National Banks.....	2.7	1.6	1.9	2.0
Profits on Coinage, etc.....	5.9		6.1	9.9
Consular Fees, etc.....	3.4	2.8	2.4	3.3
Miscellaneous.....	9.1	12.7	12.5	20.8
Total.....	\$336.4	\$297.7	\$504.1	\$567.3

Customs are taxes levied on goods when imported into the country; the internal-revenue duties are taxes on tobacco and spirituous liquors produced within the United States; so that both customs duties and internal-revenue taxes are indirect. The latter, being taxes upon stimulants or luxuries, are a highly proper means of raising a revenue. These sources of taxation in past years are to be readily seen in Chart VIII.

282. The customs duties levied on goods imported from foreign countries yield the largest part of our revenue. They are not laid in such a way as to bring in the largest revenue, and nothing has been done to find the "revenue point," chiefly because the duties are believed by some to exist for other reasons than for providing an income. But, in order that we may see for ourselves, let us collect together in groups the **articles on which import taxes are levied**, and see what commodities are taxed by the United States. Then we can better judge whether or not our national system conforms to the general principles of taxation already stated. In one column is given the value of the goods, and in the other is given the amount of the tax which is levied on the given value. This table is taken from the United States Statistical Abstract (sums are given in millions and tenths of millions):

Leading articles which pay import duties.	1885.		1899.	
	Values.	Duty collected.	Values.	Duty collected.
Sugar, confectionery, and molasses..	\$73.5	\$52.1	\$38.2	\$29.5
Wool, and manufactures of.....	45.6	27.5	18.3	12.5
Silk, manufactures of.....	28.1	14.0	22.6	12.2
Iron and steel, and manufactures of	34.0	12.0	12.8	5.8
Cotton, manufactures of.....	27.2	10.9	26.7	14.6
Tobacco, and manufactures of.....	9.1	7.4	8.2	9.9
Flax, hemp, jute, etc., and m'fres of	32.7	9.1	20.5	8.4
Liquors (malt, distilled spirits, wines)	9.3	7.1	8.6	5.7
Chemicals, drugs, dyes, and medicines	11.7	3.8	15.4	4.8
Glass, and manufactures of.....	6.4	3.7	3.7	2.1
Fruits, including nuts.....	13.0	3.7	9.1	4.3
Leather, and manufactures of.....	10.3	2.9	11.3	3.7
Earthen, stone, and china ware....	4.8	2.7	6.4	3.6
Jewelry and precious stones.....	6.1	.6	7.5	.9
Breadstuffs.....	6.6	1.0	.9	.3
All other dutiable articles.....	68.3	19.6	85.4	25.8
Total dutiable merchandise.....	\$386.7	\$178.1	\$295.6	\$144.1
Per cent. of duties on values....		45.86		48.75

From this official account we see that taxable articles to the value of \$295,600,000 were imported, and that on

these the United States collected taxes to the sum of \$144,100,000; or, in other words, the United States collects as taxes, under present laws, about 48 per cent. of the value of the goods imported. And to this extent are the taxed articles necessarily increased in price to the people of this country.

283. In considering whether such a system of taxation is a good one or not, we should apply to it the general rules previously stated. First, we find that in our system many necessaries of life are taxed: such as clothing, blankets, flannels, iron, cotton goods, flax, hemp, drugs and medicines, glass, leather, and earthenware. The bulk of the taxes are not on articles of vanity; and the duties are so high as to keep out foreign goods to a considerable extent. Just so far as taxes keep goods from being imported do they lessen the revenue which might be obtained by lower duties. Then, also, many of the taxes are discriminating; that is, one method of getting an article, importation, is taxed, while another method of getting it, by home production, is untaxed. This obliges the country to get its goods by the more costly method, or home production (see section 280). To illustrate this point, suppose that the United States has need of 10,000,000 tons of steel, and that she produces at home 6,000,000 tons and imports the remaining 4,000,000 tons. If a duty of \$10 a ton is levied on imported steel, the price at home must be as much as the price abroad and \$10 more, or else none would be imported. The price in the United States of the steel made here will bear the same price as that which is imported. The Government will get the \$10 a ton on 4,000,000 tons imported, or \$40,000,000; but the 6,000,000 tons produced here will also bring the same price, of which \$10 on each ton is paid by purchasers as a tax, but not to the Government. The \$60,000,000 is paid by the consumer to the producer, not to the United States; for the United States receives only the \$10 on the imported steel. If the

home price is kept up by the duty, and if imports still come in, the one method of getting the article is encouraged at the expense of the other, and the consumer pays a large tax to those who produce the goods and not to the Government. In the chapter on Protection and Free Trade we shall discuss whether there are advantages to compensate for this large payment by one set of private persons to another. Here we are discussing solely the means of raising an income by taxation, and how to do this most effectively.